DEPARTMENT OF THE ARMY

REPLY TO ATTENTION OF:

U.S. Army Corps of Engineers WASHINGTON, D.C. 20314-1000



CERE-MM (405-80, 405-90)

10 OCT 1997

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Revised Guidance - Privatization/Disposal of Utility Systems at Active Military Installations

1. PURPOSE

Cost effective and reliable utility service is vital to supporting ongoing Army missions at active Army installations. This guidance provides faster and simpler methods of transferring ownership of utility systems from the Army. It is in the best interest of the Army to transfer utility systems as quickly as is feasible. This guidance addresses real estate issues for the transfer of utility systems and is not intended to revise or supersede existing policies and procedures involving power procurement in the privatization process. Utility systems are treated as real property and not personal property. The guidance applies to treatment plants and distribution systems of water, wastewater, natural gas, electric, steam generation heating and telephone systems categorized as real property.

2. APPLICATION

The following will normally be used when an installation requires a utility service contract for continuation of utility service. Such procedure will normally apply to non-BRAC installations and may apply to realigned BRAC installations (Public Law 100-526, as amended, or P.L. 101-510, as amended). It should be noted that the property is not considered excess, unutilized or underutilized and therefore should not require screening with the Department of Housing and Urban Development pursuant to the McKinney Act. When continuing utility service is required for active installations or for realigned installations, the installation utility office may negotiate a favorable rate with the utility company to reflect that the improvements are being transferred as part of the "value in use" or economic value of the utility system the utility company will derive after privatization.

3. PROCEDURE

a. The Installation Director of Contracting (DOC) solicits proposals for utility service in accordance with utility service contracting procedures. It is understood that proposals are solicited even though utility service is located within a state regulated franchise area and only one provider may provide service. The Request for Proposals (RFP) should contain a statement indicating that the utility distribution system may be transferred to the successful offeror and an easement, allowing the successful offeror to construct, own, operate, maintain, repair, and replace

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the distribution system will also be granted. Sample language for the RFP is attached at Enclosure 1. Early coordination between the DOC, the Director of Public Works (DPW), the MACOM and Corps District representatives is imperative.

- b. (1) Concurrently with a above, the DPW prepares a DA Form 337 which annotates the utility system to be conveyed as described in the installation real property inventory and will also prepare the appropriate environmental documentation required for the conveyance. Valuation of the utility distribution system is discussed below.
- (2) The installation forwards the completed DA Form 337 to the MACOM along with a request to issue an utility easement to the entity. No Report of Availability is required for easements in support of utility contracts servicing the installation. Such easements are granted without charge. Consideration for the easement is the operation and maintenance of the facilities for the benefit of the United States and the general public. The easement term may be perpetual or indefinite but should be no less than the term of the proposed utility contract. Additionally, the installation, in coordination with the District, shall develop a description of the easement to be attached as an Exhibit to the easement instrument. As-built construction drawings, plat maps, etc. of the utility system may be used in lieu of an actual metes and bounds survey as the legal description for the easement. Should the utility company require a metes and bounds description, the cost of such description shall be borne by the utility company.
- (3) The MACOM approves the DA Form 337 and the request to issue an utility easement and forwards the approved request to the District. The District prepares the easement in accordance with the format provided at Enclosure 2. The easement should be issued under the appropriate easement authority: 10 U.S.C. 2668 or 10 U.S.C. 2669 or the BRAC authority, P.L. 100-526, as amended, or P.L. 101-510, as amended, if applicable.
- c. An easement issued under the authorities cited above may not include more land than is necessary for the easement; may be terminated by the Secretary for (1) failure to comply with the terms of the grant; (2) nonuse; or (3) abandonment. The foregoing easement termination conditions apply only during Government ownership of the underlying fee estate. We intend to use one document to convey title to the improvements and also grant an easement to the entity allowing the entity to own, operate, replace and maintain the utility system on the installation. Language conveying title to the improvements to the entity is incorporated into the instrument. However, should the entity request a separate bill of sale or deed for the improvements, the District may prepare the document on a case by case basis.
- d. The DOC reviews proposals submitted by prospective service providers, negotiates with the offeror(s) and selects the entity which will provide the Government with the best offer for utility service. The District then executes the easement citing the selected offeror as the grantee.

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4. VALUATION

- a. Valuation of utility distribution systems encompass two elements: the land area and the improvements. Typically the Government has granted, without cost, to the utility company an easement for distributions systems. The assumption was that the easement was for the benefit of the Government. The improvements, pipes, wires, poles, transformers, etc., are carried on the installation's books as real property.
- b. The value of a distribution system is in the real estate it serves. Current Federal valuation policy for streets, highways, roads and alleys is that the value is "reflected in the value of the adjoining lots." The Uniform Appraisal Standards for Federal Land Acquisitions (The Yellow Book) states that "in most instances, the subdivider dedicates the streets to public use free of charge because of resulting enhancement." Utility distribution systems (for subdivisions) are typically installed by a subdivider and given to the utility company or municipality. In instances where a utility company installs a distribution system, or distribution lines, the utility company imposes an assessment against the real estate to repay its costs. The assessment reduces the cost to the provider i.e., the utility company or municipality.
- c. In light of the foregoing, we recommend that all utility distribution systems be found to contain a nominal value for the real property component of say \$1.00. The recommendation is based upon the premise that the Government's value is captured in the sale of the installation lands during disposal actions, and retained during continued use of the real estate in the case of privatization.
- d. Please note that any potential value-in-use, economic value or present value of anticipated net cash flows/future income pertaining to continued use, must be handled separately, should not be considered part of the real property valuation, and may be taken as a credit to the utility bill by the installation and applied towards the negotiated reduced utility service rates. This may be thought of as a "business value" attributable to the delivery of the product or service, i.e., the generation of income.

5. FEE CONVEYANCE

In instances where the ownership of the underlying land (fee interest) as well as the improvements are to be conveyed to a utility company, such as water and wastewater treatment plants the following procedures should be used.

a. The location of the improvements within the installation boundaries **must** first be considered to determine the necessity to convey a fee interest in land versus granting an easement at non-BRAC installations. Should the improvements be located at the interior of the installation,

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granting an easement in accordance with the above described procedures is the recommended course of action. The conveyance of a fee interest at non-BRAC installations without special legislation is discouraged due to the complexity of the process as described in paragraph b(1) below.

- b. AR 405-90 provides guidance on the disposal of land and improvements. The installation will prepare a Report of Excess (ROE) in accordance with AR 405-90 and forward the ROE to the MACOM. The ROE will state that the property to be transferred is **not** excess to the needs of the Army. During preparation of the ROE, the installation should consult with the District to obtain an estimate of value for the property. If the value exceeds the Army's delegated disposal authority (\$15,000), a decision must be made as to whether special legislation authorizing direct conveyance to the entity should be pursued. [**NOTE**: At the time of this writing, DA is attempting to introduce generic legislation amending Title 10, United States Code, allowing military departments to convey utility distribution systems located at any installation and regardless of value directly to a utility company or other entity.]
 - (1) If no special legislation has been enacted the following occurs:
 - (a) The MACOM approves the ROE and forwards the ROE to the District.
- (b) The District reports property to the General Services Administration (GSA) advising the GSA that the property is not excess and may be available to public entities as a public benefit conveyance. [NOTE: Close coordination between the GSA, the District and the installation is imperative.]
- (c) The DOC negotiates a utility service contract with the utility provider subject to technical and legal approval by the Directorate of Army Power Procurement IAW AR 420-41.
 - (2) If special legislation is enacted the following occurs:
- (a) The installation prepares an ROE in accordance with AR 405-90 and forwards the ROE to the MACOM.
 - (b) The MACOM approves the ROE and forwards to the District
- (c) The District appraises property, if required under terms of legislation, and conveys property to the entity at the consideration specified in legislation. Should easements be required in support of the fee transfer of the treatment plant, the procedures described above should be followed.

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(d) The DOC negotiates a utility service contract with the entity specified in legislation.

(3) For realigned BRAC installations, P.L. 100-526, as amended, or P.L. 101-510, as amended, will be cited as the conveyance authority.

6. COORDINATION

This guidance has been coordinated with Mr. Eng, DAIM-FDF-U, Mr. McCulla, CECPW-C, Mr. Birney, OASA(I,L&E), Mr. McMullen, CERE-E and Mr. Paterson, CERE-C.

FOR THE COMMANDER:

Encl

Director of Real Estate

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DEPUTY ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS & HOUSING)

ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT, ATTN: DAIM-MD, 600 ARMY PENTAGON, WASH, DC 20310-0600 ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT, ATTN: DAIM-FDF-U, 600 ARMY PENTAGON, WASH, DC 20310-0600

U.S. ARMY INDUSTRIAL OPERATIONS COMMAND, ATTN: AMSIO-ISR,

ROCK ISLAND, IL 61299-6000

CERE-C CERE-E

CECPW-C

Suggested language for RFP announcement on UTILITY PRIVATIZATION

The real property comprising the (type) distribution system at <u>name of installation</u> will be transferred to the successful offeror and an easement, shall be granted to the successful offeror which will allow the successful offeror to construct, own, operate, maintain, repair, replace the (type) distribution system at <u>name of installation</u>. A list of the improvements are available at the office of the Director of Public Works at <u>name of installation</u>.

DEPARTMENT OF THE ARMY	
EASEMENT FOR	_
UTILITY SYSTEM	
LOCATED ON	
(Installation)	-

NO.

THE SECRETARY OF THE ARMY, under and by virtue of the authority vested in the Secretary by Title 10, United States Code, Section _______, [use Title 10, United States Code, Section 2668, for substations for electric power transmission lines, pump stations for gas, water and sewer, poles and lines for electric power and communication transmission and distribution; use Title 10, United States Code, Section 2669, for gas, water and sewer pipelines], [for BRAC conveyances include the following "and by the Defense Authorization Amendments and Base Closure and Realignment Act, Public Law 100-526, as amended and the Defense Base Closure and Realignment Act of 1990, Public Law 101-510, as amended], having found that the granting of this easement is not incompatible with the public interest, hereby grants to:

County, State

	,
hereinafter referred to as the Grantee, an easement for	
including all right, title and interest in and to all appur	enances
located thereon, hereinafter referred to as the facilities, across, in and upon lands of the United States as identified	
Exhibit(s) , hereinafter referred to as the	9
premises, and which are attached hereto and made a part her	eof.

THIS EASEMENT is granted subject to the following conditions.

TERM OF THE UTILITY CONTRACT, if any) 1. TERM This easement is hereby granted for a term of years, beginning ____ 2. CONSIDERATION [USE WHEN VALUE IS NOT RESERVED] The consideration for this easement shall be the transfer of the facilities and the operation and maintenance of these facilities for the benefit of the United States and the general public in accordance with the terms herein set forth. CONSIDERATION [USE WHEN VALUE IS RESERVED] As consideration for the facilities conveyed herein, the Grantee shall pay the United States the amount of), the receipt and (sufficiency of which is hereby acknowledged. Further, the Grantee shall operate and maintain said facilities located within the easement area for the benefit of the United States and the general public in accordance with the terms herein set forth. 3. NOTICES All correspondence and notices to be given pursuant to this easement shall be addressed, if to the Grantee, to and, if to the United States, to the District Engineer, Attention: Chief, Real Estate Division, or as may from time to time otherwise be directed by the parties. Notice shall be deemed to have been duly given if and when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service. 4. AUTHORIZED REPRESENTATIVES Except as otherwise specifically provided, any reference herein to "Secretary", "District Engineer", "Installation Commander", or "said officer" shall include their duly authorized representatives. Any reference to "Grantee" shall include assignees, transferees and their duly authorized representatives.

(TERM MAY BE PERPETUAL OR INDEFINITE - SHOULD BE NO LESS THAN THE

5. SUPERVISION BY THE INSTALLATION COMMANDER

The construction, operation, maintenance, repair or replacement of said facilities, including culverts and other drainage facilities, shall be performed at no cost or expense to

the United States and subject to the approval of the Installation Commander, (Installation), hereinafter referred to as said officer. Upon the completion of any of the above activities, the Grantee shall immediately restore the premises to the satisfaction of said officer. The use and occupation of the premises for the purposes herein granted shall be subject to such rules and regulations as said officer prescribes in writing from time to time.

6. APPLICABLE LAWS AND REGULATIONS

The Grantee shall comply with all applicable Federal, state, county and municipal laws, ordinances and regulations wherein the premises are located, including, but not limited to, the provisions of the latest edition of the National Electrical Safety Code (NESC) and the Environmental Protection Agency regulations on Polychlorinated Biphenyls (PCB's).

7. CONDITION OF PREMISES

The Grantee acknowledges that it has inspected the premises, knows the condition, and understands that the same is granted without any representation or warranties whatsoever and without any obligation on the part of the United States.

8. INSPECTION AND REPAIRS

The Grantee shall inspect the facilities at reasonable intervals and immediately repair any defects found by such inspection or when required by said officer to repair any such defects.

9. PROTECTION OF GOVERNMENT PROPERTY

The Grantee shall be responsible for any damage that may be caused to the property of the United States by the activities of the Grantee under this easement and shall exercise due diligence in the protection of all property located on the premises against fire or damage from any and all other causes. Any property of the United States damaged or destroyed by the Grantee incident to the exercise of the privileges herein granted shall be promptly repaired or replaced by the Grantee to a condition satisfactory to said officer, or at the election of said officer, reimbursement made therefor by the Grantee in an amount necessary to restore or replace the property to a condition satisfactory to said officer.

10. RIGHT TO ENTER

The right is reserved to the United States, its officers, agents, and employees to enter upon the premises at any time and for any purpose necessary or convenient in connection with government purposes, to make inspections, to remove timber or other material, except property of the Grantee, and/or to make any other

use of the lands as may be necessary in connection with government purposes, and the Grantee shall have no claim for damages on account thereof against the United States or any officer, agent, or employee thereof.

11. TRANSFERS AND ASSIGNMENTS

Without prior written approval by said District Engineer, the Grantee shall neither transfer nor assign this easement or any part thereof nor grant any interest, privilege or license whatsoever in connection with this easement. The provisions and conditions of this easement shall extend to and be binding upon and shall inure to the benefit of the representatives, successors and assigns of the Grantee.

12. INDEMNITY

The United States shall not be responsible for damages to property or injuries to persons which may arise from or be incident to the exercise of the privileges herein granted, or for damages to the property or injuries to the person of the Grantee's officers, agents, or employees or others who may be on the premises at their invitation or the invitation of any one of them, and the Grantee shall hold the United States harmless from any and all such claims not including damages due to the fault or negligence of the United States or its contractors.

13. SUBJECT TO EASEMENTS

This easement is subject to all other existing easements, or those subsequently granted as well as established access routes for roadways and utilities located, or to be located, on the premises, provided that the proposed grant of any new easement or route will be coordinated with the Grantee, and easements will not be granted which will, in the opinion of said officer, interfere with the use of the premises by the Grantee.

(DELETE THE FOLLOWING CONDITION IF NOT APPLICABLE) 14. REQUIRED SERVICES

The Grantee shall furnish through said facilities such services as may be required from time to time for governmental purposes, provided that payment for such service will be made by the United States at rates which shall be mutually agreeable but which shall never exceed the most favorable rates granted by the Grantee for similar service.

15. RELOCATION OF FACILITIES

In the event all or any portion of the premises occupied by the said facilities shall be needed by the United States, or in the event the existence of said facilities is determined to be detrimental to governmental activities, the Grantee shall from time to time, upon notice to do so, and as often as so notified, remove said facilities to such other location on the premises as may be designated by said officer. In the event said facilities shall not be removed or relocated within ninety (90) days after such notice, the United States may cause such relocation (THE FOLLOWING CLAUSE MAY BE DELETED) (at the sole expense of the Grantee).

16. TERMINATION

This easement may be terminated by the Secretary upon (TERMINATION PERIOD MAY BE 30 DAYS TO 2 YEARS) _____ days written notice to the Grantee if the Secretary shall determine that the right-of-way hereby granted interferes with the use (THE FOLLOWING CLAUSE MAY BE DELETED) (or disposal) of said land by the United States, or it may be revoked by the Secretary for failure of the Grantee to comply with any or all of the conditions of this easement, or for non-use for a period of two (2) years, or for abandonment.

17. SOIL AND WATER CONSERVATION

The Grantee shall maintain, in a manner satisfactory to said officer, all soil and water conservation structures that may be in existence upon said premises at the beginning of or that may be constructed by the Grantee during the term of this easement, and the Grantee shall take appropriate measures to prevent or control soil erosion within the right-of-way herein granted. Any soil erosion occurring outside the premises resulting from the activities of the Grantee shall be corrected by the Grantee as directed by said officer.

18. ENVIRONMENTAL PROTECTION

- a. Within the limits of their respective legal powers, the parties hereto shall protect the premises against pollution of its air, ground, and water. The Grantee shall promptly comply with any laws, regulations, conditions or instructions affecting the activity hereby authorized if and when issued by the Environmental Protection Agency, or any Federal, state, interstate or local governmental agency having jurisdiction to abate or prevent pollution. The disposal of any toxic or hazardous materials within the premises is strictly prohibited. Such regulations, conditions, or instructions in effect or prescribed by the said Environmental Protection Agency or any Federal, state, interstate or local governmental agency are hereby made a condition of this easement. The Grantee shall not discharge waste or effluent from the premises in such a manner that the discharge will contaminate streams or other bodies of water or otherwise become a public nuisance.
- b. The use of any pesticides or herbicides within the premises shall be in conformance with all applicable Federal, state and local laws and regulations. The Grantee must obtain approval in writing from said officer before any pesticides or herbicides

are applied to the premises.

c. The Grantee will use all reasonable means available to protect the environment and natural resources, and where damage nonetheless occurs arising from the Grantee's activities, the Grantee shall be liable to restore the damaged resources.

19. HISTORIC PRESERVATION

The Grantee shall not remove or disturb, or cause or permit to be removed or disturbed, any historical, archeological, architectural or other cultural artifacts, relics, remains or objects of antiquity. In the event such items are discovered on the premises, the Grantee shall immediately notify said officer and protect the site and material from further disturbance until said officer gives clearance to proceed.

20. NON-DISCRIMINATION

The Grantee shall not discriminate against any person or persons because of race, color, age, sex, handicap, national origin, or religion in the conduct of operations on the premises.

21. RESTORATION

On or before the expiration (MAY ADD: without renewal) or termination of this easement, the Grantee shall, without expense to the United States, and within such time as said officer may indicate, remove said facilities and restore the premises to the satisfaction of said officer. In the event the Grantee shall fail to remove said facilities and restore the premises, the United States shall have the option to take over said facilities without compensation, or to remove said facilities and perform the restoration at the expense of the Grantee, and the Grantee shall have no claim for damages against the United States or its officers or agents for such action.

22. DISCLAIMER

This instrument is effective only insofar as the rights of the United States in the property are concerned, and the Grantee shall obtain such permission as may be required on account of any other existing rights. It is understood that the granting of this easement does not eliminate the necessity of obtaining any Department of the Army permit which may be required pursuant to the provisions of Section 10 of the Rivers and Harbors Act of 3 March 1899 (30 Stat. 1151; 33 U.S.C. § 403), Section 404 of the Clean Water Act (33 U.S.C. § 1344) or any other permit or license which may be required by Federal, state or local statute in connection with use of the premises.

23. NON-TRANSFERRABLE RIGHTS

Conditions 5, 8, 9, 10, 12, 14, 15 and 21 are non-transferrable rights of the Grantor. In the event of disposal of the United States' underlying fee, these rights and conditions will not transfer with the land.

THIS EASEMENT is not subject to Title 10, United States Code, Section 2662, as amended.

IN WITNESS WHEREOF, I have hereunto set my hand by authority of the Secretary of the Army, this day of	7
THIS EASEMENT is also executed by the Grantee this day of	-
(Add Adlenovi) odemonta)	

(Add Acknowledgments)

San April